

CITY OF TACOMA  
Pierce County, Washington  
Special Audit  
December 23, 1988 Through February 14, 1997

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Schedule Of Findings

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1. Public Assets Were Misappropriated And Accounting Records Were Falsified

Our audit of the financial records of the City of Tacoma revealed that at least \$491,828.82 in public assets was misappropriated by the Assistant Operations Manager (manager) of the Tacoma Dome during the period December 23, 1988, through February 14, 1997. Accounting records were falsified in an attempt to conceal these losses. There were no federal funds involved in this case.

The manager was in a position to falsely authorize purchases, take possession of the assets, and then falsely authorize payment for these transactions by signing that the assets had been received. The methods used by the manager to conceal these false transactions and to misappropriate public assets for personal gain are detailed below.

- a. The manager convinced two vendors to alter their invoices to the city. As a result, these vendors willingly acted in collusion with the manager in this scheme. The manager first ordered and picked up assets directly from the vendor rather than having them delivered to the receiving area at the Tacoma Dome. The manager instructed the vendors to break up the purchases into a number of smaller invoices that totaled the purchase amount and then to send them to the city for payment over a period of weeks. The false invoices were generally issued for consumable items which would not be inventoried or tracked in the city's accounting system. The assets purchased in this manner were taken by the manager and kept or later sold for personal gain. Losses from this method were at least \$336,443.67.
- b. The manager convinced a third vendor to submit invoices to the city for goods or services which were never received at the Tacoma Dome. This vendor also willingly acted in collusion with the manager in this scheme. To obtain cash, the manager submitted a purchase requisition for products not subject to bidding requirements. The purchase requisition was sent to the vendor who would invoice the city for the amount shown on the document. The manager then signed the invoice indicating that the items had been received, and the city paid the vendor for the transaction. Finally, the manager and the vendor split the proceeds of these transactions at a later date. Losses from this method were at least \$134,554.04.
- c. During the period December 1996 through February 1997, the manager ordered many small tools and other equipment items through the city's open purchase order system. He normally picked up these items directly from the vendors and then authorized payment for these transactions by signing that the assets had been

received at the Tacoma Dome. However, the assets were later taken to various pawn shops and sold for personal gain. In addition, the manager stated that some of these assets were traded directly for drugs. Losses from this method were at least \$20,831.11.

The Pierce County Prosecuting Attorney's Office has charged the manager with multiple felony crimes for first degree theft (RCW 9A.56.030) and unlawful possession of a controlled substance (RCW 69.50.401). In addition, the following statutes apply to this case:

RCW 42.20.060 states:

**Falsely auditing and paying claims.** Every public officer, or person holding or discharging the duties of any public office or place of trust under the state or in any county, town or city, a part of whose duty it is to audit, allow or pay, or take part in auditing, allowing or paying, claims or demands upon the state or such county, town or city, who shall knowingly audit, allow or pay, or, directly or indirectly, consent to or in any way connive at the auditing, allowance or payment of any claim or demand against the state or such county, town or city, which is false or fraudulent or contains any charge, item or claim which is false or fraudulent, shall be guilty of a gross misdemeanor.

RCW 42.24.110 states:

**Municipal corporations and political subdivisions - Approving or paying false claim - Penalty.** Any person who knowingly approves or pays or causes to be approved or paid a false or untrue claim shall be guilty of a gross misdemeanor and, in addition, he shall be civilly liable on his bond to the municipal corporation or political subdivision, as the case may be, for the amount paid or for three hundred dollars whichever is the greater.

The manager abused his position and authority as a key, trusted employee at the Tacoma Dome and circumvented the city's policies and procedures while performing the unauthorized acts described above.

The following internal control weaknesses allowed these losses to occur and not be detected by city management officials in a timely manner.

- a. There was an inadequate segregation of duties for the manager's position at the Tacoma Dome. As described above, the manager was in a position to authorize purchases, take possession of the assets, and then authorize payment for these transactions in the course of his normal duties. However, there was an inadequate supervisory or management review of the work performed by the manager which would accomplish the same objective as a segregation of duties between two or more employees. Such a review would help to mitigate this condition.
- b. The manager picked up and signed for assets received directly from vendors rather than having the items delivered to the Tacoma Dome's central delivery destination. In addition, city management officials never questioned why such a high level manager repeatedly performed these routine tasks.

- c. The city did not send purchasing letters when new vendors were initially established, or annually to long-term vendors, informing them of its policy on gifts and other inappropriate acts by or with city employees. In addition, the city had not established an independent point of contact to receive input from vendors about potential purchasing system irregularities or ways to improve the city's purchasing policies and procedures.
- d. The Tacoma Dome did not periodically send lists of assets purchased to the various departments and require that managers verify that all items purchased have been properly authorized and received.

We recommend the city seek recovery of the cost of the misappropriated assets and related audit/investigation costs from the manager and their insurance bonding company, as appropriate. We further recommend the Washington State Office of the Attorney General and the Pierce County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

Bond coverage for city employees is as follows:

Insurance Company:	The Hartford
Type of Policy:	Crime Policy
Policy Number:	PEB JL4805
Amount of Coverage:	\$1,000,000 per loss with a \$25,000 deductible provision
Period of Coverage:	September 3, 1996, until canceled

Insurance Company:	The Hartford
Type of Policy:	Crime Policy
Policy Number:	PEB HV8067
Amount of Coverage:	\$1,000,000 per loss with a \$25,000 deductible provision
Period of Coverage:	September 3, 1988, to September 3, 1996

We also recommend the city:

- a. Review overall accounting controls at the Tacoma Dome, correct the weaknesses outlined above, and implement an effective system of internal control designed to ensure the protection of public assets.
- b. Consider debarment or suspension of the vendors who acted in collusion with the manager in this scheme from doing further business with the city.

*Auditee's Response*

*The City has already taken the necessary preliminary steps required to recover these losses from our insurance company. We expect to recover the entire amount except for a \$25,000 deductible. The City has an existing procedure for debarring vendors and has used it in the past. City officials will review the details of the audit report to determine whether any vendors should be either permanently or temporarily debarred from participating in City contracts.*

### Auditor's Concluding Remarks

We appreciate the city's efforts. We will review the improvements at our next audit. At the city's request, we will also be providing training on fraud prevention to their executive managers and staff.

#### 2. City Employees Should Comply With The Code Of Ethics Law For Municipal Officers

As described in Finding 1, the Assistant Operations Manager (manager) of the Tacoma Dome was in collusion with several vendors doing business with the City of Tacoma. Our audit revealed that the manager worked in partnership with at least one vendor to bid on city projects. The manager used his position to influence the competitive purchasing process and obtain contracts from the city. The manager and the vendor would split the profits of the contract after the city paid the invoices. The manager admitted that one way this vendor was able to bid an amount lower than other vendors was because they resold assets to the city that had previously been purchased by and taken from the Tacoma Dome. In some cases, the equipment items never physically left the Tacoma Dome. In the process, the manager also violated several regulations to bypass normal competitive purchasing procedures (see Finding 3). These actions were taken without the knowledge of city management officials and violated the code of ethics law for municipal officers. Questioned costs resulting from the transactions with this vendor were at least \$199,477.91 during the period May 30, 1989, through September 23, 1996.

RCW 42.23.030 states in part:

**Interest in contracts prohibited - Exceptions.** No municipal officer shall be beneficially interested, directly or indirectly, in any contract which may be made by, through or under the supervision of such officer, in whole or in part, or which may be made for the benefit of his or her office, or accept, directly or indirectly, any compensation, gratuity or reward in connection with such contract from any other person beneficially interested therein. This section shall not apply in the following cases . . .

(6) The letting of any other contract . . . PROVIDED, That the total volume of business represented by such contract or contracts in which a particular officer is interested, singly or in the aggregate, as measured by the dollar amount of the municipality's liability thereunder, shall not exceed seven hundred fifty dollars in any calendar month . . .

RCW 42.23.050 states:

**Prohibited contracts void - Penalties for violation of chapter.** Any contract made in violation of the provisions of this act shall be void and the performance thereof, in full or in part, by a contracting party shall not be the basis of any claim against the municipality. Any officer violating the provisions of this act shall be liable to the municipality of which he is an officer for a penalty in the amount of three hundred dollars, in addition to such other civil or criminal liability or penalty as may otherwise be imposed upon him by law.

In addition to all other penalties, civil or criminal, the violation by any officer of the

provisions of this act shall work a forfeiture of his office.

RCW 42.23.070 states in part:

**Prohibited acts.** (1) No municipal officer may use his or her position to secure special privileges or exemptions for himself, herself, or others . . . (2) No municipal officer may, directly or indirectly, give or receive or agree to receive any compensation, gift, reward, or gratuity from a source except the employing municipality, for a matter connected with or related to the officer's services as such an officer unless otherwise provided for by law . . . (4) No municipal officer may disclose confidential information gained by reason of the officer's position, nor may the officer otherwise use such information for his or her personal gain or benefit.

*Tacoma Municipal Code* 1.46.030 states in part:

In order to avoid becoming involved or implicated in a conflict of interest or impropriety or, just as important, an appearance of conflict of interest or impropriety, all City personnel and all persons shall obey the following prohibitions:

No City personnel shall, except for compensation as provided by law, use his or her office or any confidential information received thereby for any private purpose, including, without limitation: commercial purposes, financial gain, present or future employment or gain for himself or herself, a member of his or her immediate family, or business with which he or she is associated . . .

No City personnel, in their relationships with any person, shall use the power or authority of their office or position, in a manner intended to induce or coerce another person to provide, directly or indirectly, anything of value which will accrue to the private advantage, benefit, or economic gain of the official, employee, or any other person.

No City personnel shall:

Share in any way in the compensation or in anything of value received by another person in respect to any transaction in which City personnel are prohibited from engaging.

Accept anything of value, other than compensation provided by law, for rendering the services for which he or she is compensated.

We recommend the Washington State Office of the Attorney General and the Pierce County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

We also recommend the city:

- a. Review all transactions initiated by the manager and take whatever action is deemed appropriate under the circumstances.
- b. Emphasize its policies and procedures for complying with the code of ethics law for municipal officers to all employees. To ensure that employees are properly trained and informed about taking appropriate governmental actions at all times, we further recommend the city communicate the various types of improper employee actions which occurred in this case and which can occur in other circumstances during the course of conducting routine city business.

#### Auditee's Response

*The City strengthened its own Code of Ethics approximately two years ago and conducted an extensive educational campaign for City employees. The City's Code of Ethics is more restrictive than State statutes in restricting employee participation in City contracts. We believe that most City employees are aware of these restrictions and the City will hold its employees accountable for any infractions. The City has drafted a letter intended to inform vendors about how the City intends to do business and which provides telephone numbers for vendors to call if they suspect City employees of misconduct.*

#### Auditor's Concluding Remarks

We appreciate the city's efforts. We will review the improvements at our next audit. At the city's request, we will also be providing training on fraud prevention to their executive managers and staff.

#### 3. The City Should Establish And Enforce Standards For Decentralized Purchasing And Accounts Payable Functions

The city has delegated much of the auditing and control functions of purchasing and accounts payable to various departments such as the Tacoma Dome. However, many departments have not implemented adequate controls to ensure that all purchases were authorized, all assets were received, and all accounts payables were valid. Our review disclosed significant internal control weaknesses in the following areas:

- a. The auditing officer's certification was not completed on most vouchers. For the transactions we reviewed, invoices were paid based upon each department's "OK to pay." The "OK to pay" statement is less in scope than an auditing officer's certification as required by RCW 42.24.080. While all vouchers have a preprinted auditing officer's certification and a facsimile signature by the Director of Finance, this does not meet the requirements of this statute.
- b. Purchases on open purchase orders do not require the same procedures as other city purchases. The following schedule summarizes the exceptions that were noted in our review of purchase documentation on file at the city.
  - (1) Competitive purchasing requirements were not required.
  - (2) Purchases were made without supervisory approval.
  - (3) Purchases were approved for payment without documented evidence that the goods or services were received.

(4) Some individuals marking the "OK to pay" block were not authorized to exercise this responsibility.

(5) The same person was allowed to order equipment, pick up the purchases from the vendor, and approve the invoice for payment.

RCW 42.24.080 states in part:

**Municipal corporations and political subdivisions - Claims against for contractual purposes - Auditing and payment - Forms - Authentication and certification.** All claims presented against any . . . city . . . shall be audited, before payment . . . Such claims . . . shall provide for authentication and certification by such auditing officer that the materials have been furnished, the services rendered or the labor performed as described, and that the claim is a just, due and unpaid obligation against the municipal corporation or political subdivision; and no claim shall be paid without such authentication and certifications . . . .

*Tacoma Municipal Code 1.06.241* states in part:

The Director of Finance shall be responsible for all City purchasing and shall appoint a Financial Manager/Purchasing who shall be head of the Purchasing Division of the Finance Department and who shall, subject to the exceptions stated in the Charter and in this chapter, make all purchases of materials, supplies, equipment, and contractual services . . . .

*Tacoma Municipal Code 1.06.245* states in part:

Competitive prices or bids for all purchases and public works and improvements shall be obtained except as other wise provided herein; and the purchase made from, or the contract awarded to, the lowest and best responsible bidder . . . .

The lack of adequate purchasing procedures and internal controls has already resulted in the misappropriation of city assets by a key, trusted employee (see Finding 1). Under the above circumstances, further losses could occur and go unnoticed by city management officials for an extended period of time.

We recommend the city establish minimum procedures and control objectives for purchases by all departments. These controls should be sufficient to enable the Finance Department to audit and certify all claims as required by law.

*Auditee's Response*

*Due to practical considerations related to the number of operational locations, the City has long maintained a decentralized purchasing and accounts payable structure. Some processes must be performed by the operating departments prior to final processing by the Finance Department's Purchasing Division or Accounts Payable section. There are many controls currently in place which have served the City very well for many years. These controls were not effective in this case because the senior position of the individual involved allowed him greater-than-normal access to both assets and purchasing documents and he was able to persuade several vendors to cooperate in his scheme by falsifying their invoices to match his own falsified records. Never-the-less,*

*additional improvements have been made and more are possible.*

*The Dome has changed its department-level purchasing controls to conform with the recommendation in the audit report. Additionally, the City has several employee teams working to identify further improvements to the City's overall purchasing and accounts payable processes. All open purchase orders are being reviewed to ensure they are necessary for operational efficiency.*

Auditor's Concluding Remarks

We appreciate the city's efforts. We will review the improvements at our next audit. At the city's request, we will also be providing training on fraud prevention to their executive managers and staff.